

Testimony of Nathanael Heasley
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Before the Subcommittee on Fisheries Conservation,
Wildlife and Oceans
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Introduction

Good afternoon, Mr. Chairman and members of the committee. My name is Nate Heasley, and I'm the Fisheries Program Director for Taxpayers for Common Sense. Taxpayers for Common Sense (TCS) is an independent voice for American taxpayers, dedicated to cutting wasteful spending and subsidies in order to achieve a responsible and efficient government that operates within its means.

I'm here today to talk about the trend toward privatization of America's fisheries through the use of Individual Fishing Quotas (IFQs). IFQs are a fishery management system that divides the current harvest of a particular fishery between some of the participants, and gives each an exclusive privilege to harvest a set amount of fish without competition. The privilege, expressed as a percentage of the total allowable catch (TAC) for that fishery, is then transferable to others, who purchase the privilege from the initial recipient. There are currently only four IFQ programs in place in the United States: halibut, sablefish, wreckfish and surf clam/ocean quahog.

As this committee likely knows, the Sustainable Fisheries Act of 1996 established a moratorium on new IFQ programs. Without action by Congress, that moratorium will expire with the Magnuson-Stevens reauthorization. If Congress does not enact legislation on the use of IFQs, regional councils will be able to implement unfettered IFQ programs, with potentially disastrous effects. IFQs are a blunt tool for fishery management. Improperly implemented, they create an inflexible system that permanently puts a public resource in private hands. My comments will highlight the following issue: the give-away of a public resource, the problems of initial allocation of IFQs, and the internalization of management costs. In my conclusion, I will propose that only properly structured competitive auctions will address these problems.

Giving Away the Public Resource

As they have been implemented in the US prior to the moratorium, IFQs represent a move towards privatization of the fisheries. Taxpayers for Common Sense is very concerned by this trend. As we all know, the 200-mile coastal Exclusive Economic Zone is one of America's largest and most valuable public resources. IFQs have the potential to seriously undermine the protections that the oceans have as a public resource.

As a public resource the fisheries are the property of the American people, and should not be simply given away. If IFQ programs are allowed without significant protections, they will do just that; rob the American people of their resource and create additional costs for fisheries management on the taxpayers.

The creeping privatization of IFQs will only lead to the misperception that the recipient has property right in the fishery. Similar examples can be found in grazing privileges, which have long been allotted for far below market value. As we have seen with grazing, a failure to set up the system properly from the beginning can lead to the misperception of a property right in a public resource, which in turn gives rise to spurious lawsuits and waste of the public's resource. IFQs have the potential to be the "grazing privileges of the sea," with all of the same wastefulness as those privileges have on land.

In the few examples we have of IFQ programs, IFQs have been handed out free of charge to a select group of people in that fishery. Those IFQs represent a grant of millions of dollars worth of a public resource, and since they are typically transferable, they present a tremendous windfall to those who are lucky enough to receive them. Those who do not receive them are then barred from entering the fishery, unless they want to pay those who were handed the privilege for free.

Initial Allocation and Intergenerational Equity

When an IFQ program is implemented, the initial allocation is often capricious, unfairly excluding some who have participated in the fishery while giving a windfall to others. Those "winners" who are lucky enough to receive an IFQ can become instant millionaires, as happened with dozens of fishermen in the halibut fishery in Alaska. Other domestic IFQ programs have had similar results - the surf clam ocean quahog fishery, for instance, had similar allocation inequities that have only been made worse by consolidation of the IFQs by large corporate interests. When IFQs were introduced in the Surf Clam Ocean Quahog fishery, more than \$80 million dollars worth of annual harvest was given away to a mere 180 recipients. All others, the "losers" were barred from the fishery, while those who were left had a grant that allowed them to fish at their leisure in a state-sponsored monopolized fishery. Since their introduction, those permits have been even further consolidated to even fewer owners, and excluding all others, including future generations who may have wanted to participate.

Worse yet, some who actually "own" the IFQs don't even fish. They lease the quota out to others, making a profit that rightfully belongs to American taxpayers. This adds a new twist to an old adage; Give a man a fish, he'll eat for a day. Teach a man to fish, and he'll eat for life. Give a man an IFQ, and he'll never bother to fish again.

This cannot be allowed to happen in future IFQ programs. Those who have traditionally fished must be allowed to continue that practice, and those who would like to fish must be allowed to enter the fishery, but not at the expense of American taxpayers and for the profit of a select few corporations or individuals. Any system that does not create a level playing field for current and future generations of fishermen cannot be supported by the American people as a proper use of their resource.

Commercial fishing represents a multi-billion dollar industry in this country, and provides a living to thousands of families. The value of those fish properly belongs to the American people, and those who benefit from the resource can no longer burden the taxpayers with their externalities, while reaping the benefits of our resource.

Recouping Costs of Management

A properly implemented IFQ plan could help pay for current fisheries management costs incurred by the federal government. Under the current system of management, very little of the cost of maintaining the fisheries is borne by the fishermen who are benefiting. Most fisheries do not have any charges or significant fees associated with the extraction of the people's living marine resources, and even taxes that are paid by most other Americans, such as the fuel tax, are waived for fishermen.

Under an IFQ system, the lack of extraction fees amounts to outright robbery. Those who are granted the exclusive privilege and guaranteed return of millions of pounds of fish, do so without compensating the American people for all but the smallest portion of the costs. For example, in the Halibut IFQ program in Alaska, perhaps the most positive example of an IFQ program that we have, the fees are limited to only 2% of the fish's sale price. A pittance when the program management costs are taken into account.

Fishery management costs run in to hundreds of millions of dollars. The NMFS budget alone in 2003 will amount to over \$600 million dollars. That money, spent on a variety of programs to ensure sustainability of America's fisheries, directly benefits fishermen. The costs of enforcement of current fishing laws amounts to over \$500 million dollars per year, including Coast Guard, NMFS, and direct aid to states. Add to all of that the cost of boat buy-backs, subsidized loans, harbor improvements, and direct subsidies, and it's clear that fishermen are benefiting a great deal at the expense of American taxpayers, while returning little for the use of their resource.

Let's be clear about who benefits from these sorts of programs. Much like agribusiness, fishing is increasingly a corporate business. The romantic days of the independent fisherman on his own boat are waning as consolidation and foreign bank interests creep in to America's fisheries. Particularly with the specter of NAFTA, which could allow large foreign-owned fishing fleets to benefit from the billion dollars that America invests in its fisheries every year.

To add insult to injury, evidence indicates that IFQ programs are likely to increase costs, not reduce them. Enforcement under an IFQ system is much more expensive than under other management techniques. According to NMFS, current IFQ programs have only a 1%-2% monitoring rate at the docks, where the target is at least 20%. Where there is a lack of enforcement, there will be illegal fishing. That in turn will lead to a reduction in the long-term productivity of the fishery, and spur even greater management costs in research and other maintenance.

This must not be allowed to happen. Just like any other business in America, the externalized costs of fishing must be internalized by those who benefit, particularly if the beneficiaries are getting an exclusive grant to fish America's waters.

Conclusion

To address these problems, Taxpayers for Common Sense encourages Congress not to allow IFQs to be used as a management tool unless there are specific provisions to protect the interests of American taxpayers' resource. To this end, we recommend that, like many other public resources made available for private use, access to the oceans under an IFQ or similar program be auctioned for the greatest benefit to the American people.

An auction is the most rational way to maximize the revenue from the fisheries, provided it done in the proper way. An auction must protect to a certain degree those who have participated and made capitol investments in that fishery, without barring new entrants completely. Experienced fishermen who have

capitol investments in the fishery will already be at a competitive advantage in an auction system, but it will still be important to provide protections to ensure that corporate fishing interests are not at an advantage merely because of their scale.

IFQ consolidation could have significant adverse effects on both fishing communities and the fisheries themselves. This ultimately could lead to more subsidies, more boat buy-backs, and an overall reduction in the yields from our fisheries - none of which will be good for American taxpayers. The lesson we've learned from America's farmers is an important one, and we should be wary of repeating the mistakes that have led to the degradation of the American family-owned farm. It is important that IFQ programs not allow consolidation of fishing interests, and that the privileges be retained for the independent fishermen that feed this country every day.

But even as we talk about auctions, we must remember that any IFQ program does not confer a property right, but merely a privilege to fish. Any IFQ program must be time limited, both to allow new entrants and to keep the industry competitive, but also to give those who manage the fisheries the flexibility to alter the programs as situations change, without having to go through cumbersome processes such as boat buy-backs and permit stacking.

Most importantly, the reason there must be time-limited auctions of any IFQ program is to ensure that America's fisheries remain the property of all Americans. Under no circumstances should the ocean become the property of a few - it is a truly public resource that is there for all Americans to enjoy in their own way - whether that's the commercial fishing that puts food on our tables, or recreational fishing that brings millions of dollars to local economies.

Taxpayers for Common Sense has proposed the idea of a competitive auction as a middle ground to the simple argument of whether or not IFQs should be allowed. We believe that an properly structured auction could ameliorate the problems associated with IFQs, while protecting American taxpayers' interests. We hope that this committee joins us in recommending a competitive auction that will reimburse the public for the use of their resource.

Thank you for the opportunity to share our views with this committee.

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